STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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Office of General Counsel
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Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
445 12th Street SW
Room TW-B204
Washington DC 20554

Re: 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers, Phase 2 (*CC Docket No. 00-199*)

Dear Secretary Salas:

On October 18, 2000, the Commission released a Notice of Proposed Rulemaking in the above-captioned matter.[1] The Commission specifically sought comment on proposed changes to its Part 32 Uniform System of Accounts ("USOA") for purposes of updating the accounting system based on changes in the marketplace and technology.

In response to the specific comments filed in respect to the NPRM, the Commission released a Public Notice[2] on June 8, 2001, seeking comment on its proposed additions, consolidations, or eliminations of the Commission's Class A and Class B accounts. In response to the Public Notice and in accordance with Section 1.106(b)(1) of the Commission's rules, 47 C.F.R. §1.1206(b)(1), the Illinois Commerce Commission ("ICC") submits this *ex parte* letter for inclusion in the public record.

Generally, the Public Notice proposes streamlining Class A and B accounts in a manner that eliminates or consolidates a number of accounts. The ICC recommends that all Class A accounting requirements for large ILECs be maintained. Accounting and reporting requirements are clearly necessary for monitoring UNE pricing and universal support, both critical elements in promoting competition pursuant to the 1996 Act. Moreover, the elimination of Class A

[1] *2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3*, CC Docket No. 00-199, *Notice of Proposed Rulemaking*, FCC 00-364 (rel. Oct. 18, 2000)("NPRM").

[2] *2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3*, CC Docket No. 00-199, Public Notice, DA 01-1403 (June 8, 2001)("Public Notice").

160 North LaSalle Street, Suite C-800, Chicago, Illinois 60601-3104
Telephone [312] 793-2877 Fax [312] 793-1556 TDD ("V/TTY") [312] 814-5845

accounting requirements would severely undermine the states' ability to understand the nature of the carriers' costs and make it more difficult for states to evaluate ILECs' cost studies prepared for determining universal service support as well as, UNE and interconnection prices.

The Public Notice proposes the inclusion of additional revenue accounts for interconnection and USF support with sub-accounts for UNE, resale, reciprocal compensation and interconnection revenue. The ICC supports the use of sub accounts for these types of revenues. Tracking UNE, resale, reciprocal compensation and interconnection revenues is useful in monitoring competition and in evaluating demand used in cost studies such as TELRIC.

The Public Notice proposed rolling accounts 6561-6565 (plant in service, property held for future use, tangible, intangible, and other amortization) into one account. It has since reconsidered and now proposes keeping Account 6562, Depreciation Expense for Property Held for Future Use as a separate account and combining the others. Illinois supports retention of Account 6562, Depreciation Expense for Property Held for Future Use as a separate account. Illinois also recommends retention of Account 6563, Amortization Expense – Intangible. States, including Illinois, that utilize rate-of-return regulation would benefit from the separate identification of amortization of intangible expense. These costs require special scrutiny because the costs are frequently considered non-regulated or below the line expenses.

The Public Notice proposes combining accounts 4010-4060 (Payable Accounts, Advanced Billing & Payments, Liabilities Payable, Customer Deposits, and Current Maturities). The ICC recommends that the Commission retain Account 4030 because the account provides information that is useful in identifying and tracking Unearned Revenue. Liabilities payable to customers have a different character from Accounts Payable to Vendors.

The Public Notice proposes substituting three access revenue accounts (5081, 5082, 5083) for Account 5084 (State Access Revenue). If this proposal is adopted, the ILECs will have to book intrastate costs into three separate accounts (e.g., end users / switched access / special access). Then, when the carriers file their Separations ARMIS reports, the costs will be broken down into interstate/intrastate costs via direct assignment. Accordingly, the proposal to eliminate Account 5084 would not streamline the reporting process because state access revenues will continue to be tracked and reported. The ICC recommends that the Commission retain Account 5084 because maintaining a separate State Access Revenue account is the best method of tracking and reporting state access revenues.

The Public Notice proposes combining the services expense accounts (6621-6623). The ICC favors a break down of customer service expense between retail and wholesale operations. Such a division of these accounts will be extremely useful to Illinois in determining avoided costs for wholesale rates. Illinois also has an interest in retaining a separate expense account for Number Services (6622) because all directory related revenues and expenses will be de-regulated in 2003.[3] A separate account would assist in identifying directory related expenses.

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[3] H.B. 2900, 92nd Gen. Assem., 2nd Sess. §801 (2001).

Finally, the Public Notice proposes combining all 6700 accounts (General and Administrative Expenses) into one account. The ICC opposes this combination because the combination would make it increasingly difficult for state regulators to identify expenses that should not be borne by competitive carriers. For example, Account number 6722 External Relations contains costs for non-product related corporate image advertising that the Illinois Commission does not allow to be recovered from ratepayers or carriers. Research and Development Expenses (6727) have also been disallowed in Illinois for ratemaking purposes. Identification of sub-groups of General and Administrative Expenses should be retained to aid state commissions in their analyses of these types of costs.

For all the aforementioned reasons, the ICC respectfully requests that the Commission rule on the Public Notice in accordance with the Illinois Commerce Commission's aforestated recommendations.

Sincerely,

Myra Karegianes
General Counsel and
Special Assistant Attorney General

Sarah A. Naumer
Thomas G. Aridas
Special Assistant Attorneys General
160 N. LaSalle, Suite C-800
Chicago, Illinois 60601
(312) 793-2877

Counsel for the
Illinois Commerce Commission

cc:

Hon. Chairman Michael K. Powell
Hon. Comm. Gloria Tistani
Hon. Comm. Kathleen Q. Abernathy
Hon. Comm. Michael J. Copps
Hon. Comm. Kevin J. Martin
Ernestine Creech, FCC Accounting Safeguards Division
Kenneth Moran, FCC Accounting Safeguards Division
Timothy Peterson, FCC Accounting Safeguards Division